LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7837 **DATE PREPARED:** Jan 16, 1999
BILL NUMBER: HB 1640 **BILL AMENDED:**

SUBJECT: Sales tax exemption for digital TV equipment.

FISCAL ANALYST: Jim Mundt
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FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill exempts from sales tax the purchase of telecommunications machinery or equipment used to enable a television station located in Indiana to originate and broadcast or to receive and broadcast digital television signals in compliance with federal law.

Effective Date: July 1, 1999.

Explanation of State Expenditures:

Explanation of State Revenues: This bill will impact the amount of revenue received by the state from sales and use tax. The television industry will be converting to the use of digital television signals. Television stations are required to purchase certain equipment which will enable them to originate, receive, and broadcast digital television signals in order to comply with Federal statute and rule.

Based on a survey conducted by the Indiana Broadcasters Association (IBA), it is estimated that each station pays about $32,600 per year in sales tax on purchases of taxable new equipment that would have been purchased notwithstanding the Federal requirement to purchase digital equipment. This provision would apply to the purchases made by at least 21 television stations in Indiana. This means that those stations are paying a total of about $685,000 in sales tax each year for new equipment under current circumstances. To the extent that stations will purchase digital equipment in compliance with Federal law which costs more than would have paid for taxable equipment in the normal course of business, the exemption provided in this proposal will impact amounts of sales tax that would not have been collected but for the Federal requirement.

Estimates of the amount of expenditures to purchase the required equipment range from $6.9 million to $8 million per station. These purchases would be made over a period of years. One station began purchasing equipment in 1996. Some stations estimated that purchases could continue as late as 2010. The four Indianapolis stations must comply with the Federal provisions by November 1, 1999. This bill would apply to purchases made after June 30, 1999 and before July 2, 2003.

The IBA survey shows that the estimated average taxable portion of these required purchases would be $6.2 million per station. These purchases will result in about $309,000 in sales tax being generated, per station, after December 31, 1997. The majority of the expenditures for new digital equipment would probably occur between 1997 and 2003. Since this bill takes effect July 1, 1999, it is estimated that about 70% of the total purchases of digital equipment will be eligible for the exemption. This means that the amount of sales tax revenue which would not be collected, over a period of four years, as a result of the provisions of this bill is estimated to be $4.6 million.

Gross retail (sales) and use taxes are deposited in the State General Fund (59.2%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), and the Industrial Rail Service Loan Fund (0.04%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Indiana Broadcasters Association, Tom Ristine, 317-236-2278; Department of State Revenue, Tom Conley, 317-232-2107; WFYI 20, Lloyd Wright, 317-636-2020.